

## Optimization of Consumption in Divine Context: (Basic Principles and Extension)

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### ABSTRACT:

*The paper aims to analyze the behavior of Islamic consumers that how they can get the maximum possible satisfaction in divine constraints. Islamic consumers ought to be socially conscious economic agents. They will always take into consideration that what their consumption means for the rest of the society? In the Islamic theory of consumption, we essentially look for both “religious success and personal gains”. Islam believes in aggregate welfare but at the same time it does not ignore personal gain i.e. maximization of personal utility or profit. A rational Islamic consumer will never spend all his money on material goods for maximization of his own utility. He will allocate some portion of his earning towards spending in the way of Allāh (S.W.T), thus the total utility for an Islamic consumer can be decomposed into two parts; material utility plus eternal utility. We have assumed that eternal utility is at least as*

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*good as worldly utility ( $U_e \geq U_m$ ). We conclude that total utility derived from spending on material goods plus eternal utility derived from spending in the way of Allah (SWT) will be at least as good as utility derived from the income of the consumer allocated towards the consumption of material commodities only. Finally, we may conclude that based upon the satisfaction of needs in divine context, resources will be allocated towards Islamically valid, humanly productive and economically efficient goods and services.*

**Keywords:** *Consumer Behavior, Optimization, Islamic Economics*

**JEL Classification Code:** C16, D110

## **1. Introduction (The philosophy of consumption in Islam)**

Being a divine religion and the religion of welfare, Islam focuses on moderate consumption in all aspects of life. Consumption pattern of individuals determine the direction of resources, to be allocated for the production of various goods and services. Consumption reflects the living ideology of people i.e. people with materialistic view will focus on their own satisfaction and interest. If the majority of the people in an economy are addicting of spending for pleasure and fun, the major part of national resources will be used for non-productive goods and services and thus capital for productive activities will become scarce, resulting in shortage of welfare goods and services for the general masses. It is very important to regulate the consumption pattern of individuals for the maximum welfare of the general masses. In aggregate sense,

consumption is an important component of aggregate demand which in turn determines the aggregate output and employment level in the economy. Moderate and productive utilization of resource can make it sure that the resources can be allocated towards humanly productive goods and services which will in turn generate maximum welfare/utility for the common man. The divinely guided principles can be taken as a reference to determine benchmark consumption for generating maximum welfare. These principles are as under<sup>1</sup>:

- i. **Principle of validity:** According to this principle, the validity of a commodity from the Sharia'h point of view is mandatory. This makes it obligatory that Islamic consumers will always take into consideration the supremacy of Sharia'h rather to follow self-interest<sup>2</sup>.
- ii. **Principle of purification:** According to this principle, a commodity should be pure and clean along with its validity. Allah (S.W.T) is pure and He does not like but pure things only. This is another important principle to regulate consumption and make it conducive towards productive resources.
- iii. **Principle of moderation:** This is another important principle of consumption in the Islamic context. An Islamic agent will be always conscious about his spending and will therefore spend a moderate amount for the satisfaction of their Sharia'h based needs<sup>3</sup>.
- iv. **Principle of benefit:** Wealth is not the outcome of one's personal efforts in the Islamic context, rather the actual ownership of everything including humans belongs to Allah (S.W.T). This necessitates that can only be used for all those activities which can result benefit to individuals or society or both.

v. **Principle of maximum welfare:** An Islamic agent will also be conscious about his spending to generate maximum real welfare. This necessitates that beside material spending for personal needs, Islamic economic agents will also spend for the cause of Allah (S.W.T) so as to achieve maximum welfare.

vi. **Principle of trust:** As mentioned earlier that the actual ownership of everything including humans belongs to Allah (S.W.T) therefore, wealth in the hand of humans is just a trust. Hence it will be used in accordance with the will of Allah (S.W.T).

vii. **Principle of gratitude:** Last but not the least, the principle of consumption is gratitude<sup>4</sup>. As wealth is the bounty of Allah (S.W.T) which has been given to humans for the satisfaction of their Sharia'h based needs. Hence it will be used in accordance with the will of Allah (S.W.T).

## 2. A Brief Literature Review:

Cox (1966) argued that religion became immaterial in sequence of secularization and urbanization. Today, conversely, religion is incredibly much alive in the global societies where religious groups of diversities take stand and influence public opinion. Studies in the literature recommended that religion is an elementary component of our culture and is associated with many aspects of consumers. Religious influence upon behavior is found in areas such as attachment of the parents, clothing styles, eating and drinking, using cosmetics, viewing social and political issues and controlling sexual behavior (Levin, 1979). Evidently the motives for participating in religious experiences are connected to religion (Gorlow & Schroeder, 1968).

Swimberghe et al., (2009) asserted that consumers' religious beliefs seem to resonate their choices of consumption. Bulky retailers, for instance, Wal-Mart and Target received widespread criticism for avoiding the explicit use of religious references in national advertising and promotional campaigns during the Christmas holidays (French, 2006). Sheth's (1983) integrative theory of retail store patronage preference and behavior suggested that a consumer's religion is a personal value that may shape an individual's shopping motives. In contrast, individuals who exhibited a high religious commitment were more likely to buy products on sale; more open to purchase foreign products, and referred others to stores with the lowest prices versus stores with the best assortment, when compared to their religious counterparts who exhibited low religious commitment (Sūd & Nasū, 1995).

Esau and Dibb (2004) established that casually religious respondents follow the trends and feel more inventive than highly pious individuals.

Kahf (unknown) specified consumer equilibrium model in three dimensions; saving, benevolent spending and personal spending. According to *Kahf*, Islamic consumer should simultaneously optimize all these three aspects together.

Khan (1992) introduced the concept of "Maṣlaha'h" with respect to optimization of consumption in the Islamic context. According to him, an Islamic consumer should always take into consideration this concept while optimizing consumption, rather to be dependent on utility.

### 3. The Concept of Consumer Equilibrium in Islamic Framework:

An Islamic consumer ought to be a socially conscious economic agent. He will always take into consideration that what his consumption means for the rest of the society? In the Islamic theory of consumption, we are essentially looking for both “*religious success and personal gains*”. Islam believes in aggregate welfare but at the same time it does not ignore personal gain i.e maximization of personal utility/satisfaction. The only thing to remember is that, personal gains should neither be contradictory to divine rules nor it should be at the cost of losses to others. A rational Islamic consumer will never spend all his money on material goods for maximization of his own utility. He will allocate some portion of his earning towards spending in the way of Allah (S.W.T), thus the total utility for an Islamic consumer can be decomposed into two parts; material utility plus eternal utility. In Islamic context, utility is a function of a set of commodities ( $X_i$ ) consumed for self-satisfaction, plus spending in the way of Allah (S.W.T)  $U_i = f(X, S_{en})$ . The consumer equilibrium model is based on the following realistic assumptions.

#### 3.1 Assumptions of the model:

- A. As there is no space for Islamically invalid and impure commodities in Islamic society therefore, the consumers use only Islamically valid and pure commodities.
- B. Non- satiation: It refers that like a traditional consumer an Islamic consumer will also prefer more to less commodities.
- C. Completeness: completeness means that an Islamic consumer is rational enough to rank the commodities accordingly. If there are

only two commodities then he/she should be able to rank the commodities in the following ways:

$$X \succ Y$$

$$Y \succ X$$

$$X \approx Y$$

- D. Transitivity: If there are only three commodities and consumer reveal his preference like  $X \succ Y \succ Z \Rightarrow X \succ Z$ . This phenomenon is known as transitivity.
- E. Eternal utility derived from the spending in the way of Allah (S.W.T) is at least as good as worldly utility ( $U_e \geq U_m$ ).
- F. Eternal utility is obtained from spending on divine commodities: Islamic consumers purchase commodities for eternal satisfaction and these commodities are then hand over to the needy and destitute.

#### 4. Consumer Equilibrium Model:

The consumer equilibrium model has specified as given:

We have a given utility function representing normal preferences

$U_x = F(X_1, X_2) = X_1 X_2$  A normal utility function

$$P_1 X_1 + P_2 X_2 = M \quad (1) \text{ Budget line without divine spending.}$$

If an Islamic consumer spends all his money on material goods and divine spending becomes equal to zero, Then the optimal quantities of  $X_1^*$  and  $X_2^*$  must satisfy the budget line.

$$P_1 X_1^* + P_2 X_2^* = Y \quad (2) \text{ Optimal quantity of } X_1 \text{ and } X_2 \text{ without divine spending.}$$

If an Islamic consumer decides to allocate a portion of his total earnings for maximization of eternal utility; thus the new budget line will be:

$$P_1X_1 + P_2X_2 = Y - S_{eu} \quad (3) \text{ Budget line with divine spending.}$$

This will certainly shift Islamic consumer from higher budget line to lower budget line. We are uncertain about the quantities of  $X_1$  and  $X_2$  because we do not know the nature of the products however; we may assume that the demand for  $X_1$  and  $X_2$  may be reduced. Now we may notice that a reduction in income level, by allocating some portion of income for achieving eternal satisfaction, will worse off consumer in term of material satisfaction.

$$P_1X_1^{**} + P_2X_2^{**} = Y - S_{eu} \quad (4) \text{ Optimal quantity of } X_1 \text{ and } X_2 \text{ after the allocation of a portion of income for eternal utility.}$$

Explanation of the symbols and basic terms;

$X_1$	Commodity one
$X_2$	Commodity two
$Y$	Budget of the consumer available for allocation of commodity $X_1$ & $X_2$
$P_1$	Price of the first commodity
$P_2$	Price of the second commodity
$S_{eu}$	The amount which is allocated for spending of eternal satisfaction
$Y - S_{eu}$	Budget available for spending on material goods
$X_1^* \& X_2^*$	Optimal quantity of $X_1$ and $X_2$ without allocating budget for eternal spending.
$X_1^{**} \& X_2^{**}$	Optimal quantity of $X_1$ and $X_2$ after allocating budget for eternal spending.

**Note:**  $X_1^* \& X_2^* > X_1^{**} \& X_2^{**}$  because  $M > M - S_{eu}$

As an Islamic consumer will be conscious about the total utility derived from spending on material commodities plus utility derived from

divine spending; the divine spending will generate at least as much additional satisfaction as lost from the reduction of budget on material commodities. Thus an Islamic consumer is compensated for material loss by receiving divine utility<sup>5</sup>.

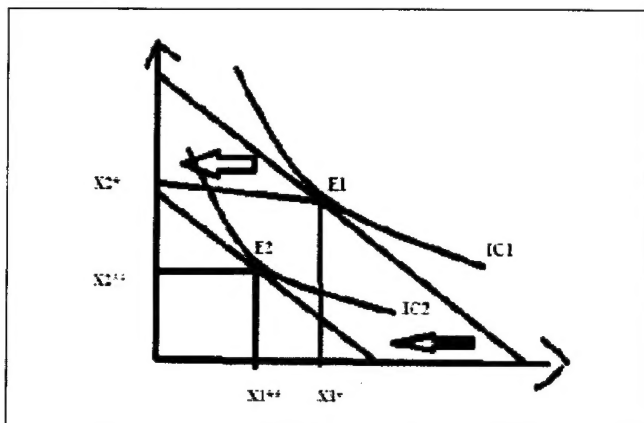
Total satisfaction for an Islamic consumer derived from material and divine/eternal spending has given below. This is very obvious from the given equations that total satisfaction derived from the final bundles  $X_{t1}^*$  and  $X_{t2}^*$  (which is a combination of both, material goods used for self-satisfaction and divine/eternal goods used for eternal satisfaction) are at least as good as derived from  $X_1^*$  and  $X_2^*$  (represents the optimal quantities of material commodities without divine spending (see equation2)

$$Tu_1 = f(X_1^* \times X_{t1}^{**}) = Um_1 + Ud_1 = Y_m / P_1 + Y_d / Pd_1 = Xt_1^*$$

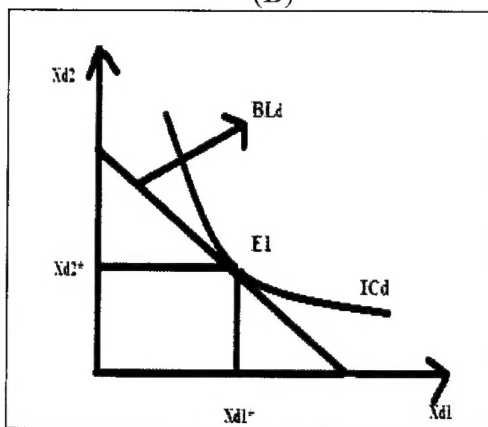
$$Tu_2 = f(X_2^* \times X_{t2}^{**}) = Um_2 + Ud_2 = Y_m / P_2 + Y_d / Pd_2 = Xt_2^*$$

### 3.2 Diagrammatic representation

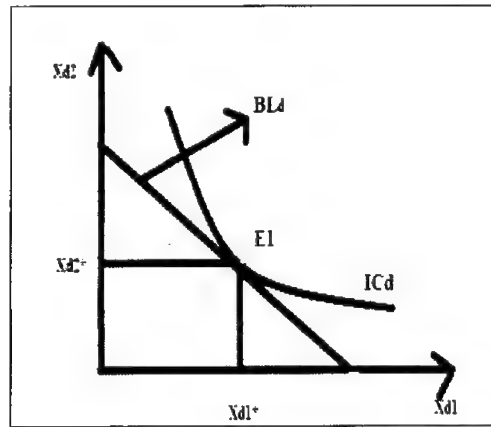
(A)



(B)



(C)



#### 4.1 Explanation:

The initial equilibrium for an Islamic consumer is shown at E1 in panel (A) where the optimal consumption of X1 and X2 is X1\* and X2\* respectively, representing that an Islamic consumer is using only material commodities. As per divine injunction, a rational Islamic consumer will not spend all his money for material satisfaction only therefore he/she will allocate a portion of his/her earnings for the attainment of eternal utility. This decision will certainly reduce the budget for material commodities. This has been shown by shifting the budget line to the left of the original budget line in the diagram- A. As previously discussed that a reduction in income level, by allocating some portion of income for achieving eternal satisfaction, will worse off consumer in term of material satisfaction.

The diversification of resources from self-material satisfaction to eternal satisfaction has generated two folds positive impacts; Firstly, an Islamic consumer will achieve some additional satisfaction in the form of divine/eternal utility.

Secondly, when the same divine/eternal commodities are handed over to the poor and destitute, this will certainly produce maximum material satisfaction for the poor and destitute, shown in the diagram- C. We may conclude that Islamic consumer optimizes his total utility by allocating his income between material and divine spending for enhancing both material and eternal utility respectively. At the same time it has a positive consumption effect on the income of the poor and marginalized segments of the society.

## 5. Conclusion:

As living ideology of people differs i.e. people with a materialistic view focus on their own satisfaction and interest which promote individualism, hedonism, selfishness and greediness. The concept of consumer equilibrium in an Islamic framework refers to both "*religious success and personal gains*". Islam believes in aggregate welfare but at the same time it does not ignore personal gains i.e. maximization of personal utility or profit. The only thing to remember is that, personal gains should neither be contradictory to divine rules nor it should be at the cost of losses to others. Based upon the divine text and traditions of the Holy prophet (P.B.U.H) the canon of consumption may be summarized as canons of lawfulness, cleanliness, moderation, benefit, morality, maximum welfare, trust and gratitude. The principles of consumption in Islamic context necessitate that a rational Islamic consumer will never spend all his money on material goods for maximization of his own utility. He will allocate some portion of his earning towards spending in the way of Allah (S.W.T), thus the total utility for an Islamic consumer can be decomposed into two parts; material utility plus eternal utility i.e. Utility is a function of a

commodity (X) consumed for self-satisfaction, plus spending in the way of Allah (S.W.T).

Finally, on the basis of the assumptions of the model our reasoning concludes that total utility derived from spending for material utility, plus eternal utility derived from spending in the way of Allah (SWT) will be at least as good as utility derived from the income of the consumer allocated towards the consumption of material commodities only. Again, as the purchase of divine commodities in fact reflect the consumption of poor people, so increasing purchases of divine/eternal commodities mean increasing the welfare of the poor and destitute in the society. This implies that total social welfare generated by Islamic consumer modes of consumption will be greater than the conventional system. Finally, we may conclude that based upon the satisfaction of needs in divine context, resources will be allocated towards Islamic ally valid, humanly productive and economically efficient goods and services.

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## Appendix-I

### Mathematical Work

$U_m = f(X_1, X_2) = X_1 X_2$  Normal preferences function of material goods

$Y_m = P_1 X_1 + P_2 X_2$  Budget line for material goods

$L = X_1 X_2 + \lambda(Y_m - P_1 X_1 - P_2 X_2)$  Lagrange function for material- commodities optimization

$U_d = f(X_{d1}, X_{d2}) = X_{d1} X_{d2}$  Normal preferences function of divine goods

$Y_d = P_{d1} X_{d1} + P_{d2} X_{d2}$  Budget line for divine goods

$L_d = X_{d1} X_{d2} + \lambda(Y_d - P_{d1} X_{d1} - P_{d2} X_{d2})$  Lagrange function for divine- commodities optimization

$$\partial L / \partial X_1 = X_2 - \lambda P_1 = 0 \dots \dots \dots (1)$$

$$\partial L / \partial X_2 = X_1 - \lambda P_2 = 0 \dots \dots \dots (2)$$

$$\partial L / \partial \lambda = Y_m - P_1 X_1 - P_2 X_2 \dots \dots (3)$$

Optimal quantity of  $X_1^*$  and  $X_2^*$

$$X_1^* = Y_m / P_1$$

$X_2^* = Y_m / P_2$  (Optimal quantities of  $X_1$  and  $X_2$  commodity used for material satisfaction by an Islamic Consumer)

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$$\partial L / \partial X_{d1} = X_{d2} - \lambda P_{d1} = 0 \dots \dots \dots (1)$$

$$\partial L / \partial X_{d2} = X_{d1} - \lambda P_{d2} = 0 \dots \dots \dots (2)$$

$$\partial L / \partial \lambda = Y_d - P_{d1} X_{d1} - P_{d2} X_{d2} \dots \dots (3)$$

Optimal quantity of  $X_{d1}^{**}$  and  $X_{d2}^{**}$

$$X_{d1}^{**} = Y_d / P_{d1}$$

$X_{d2}^{**} = Y_d / P_{d2}$  (Optimal quantities of  $X_{d1}$  and  $X_{d2}$  commodity used for eternal or divine Satisfaction by an Islamic Consumer)

***End Notes:***

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<sup>1</sup> These principles are originally developed by Abdul Hamid Dar “Islamic Economics”

Ilmi Kutub Khana

<sup>2</sup> “ o people, eat of what is lawful and clean in the earth and do not follow the ways of Satan.....(Al-Baqara 2:168)

<sup>3</sup> . (The servants of Allah are those) Who, when they spend are neither extravagant nor miserly but keep the golden mean between the two extremes...”[Al- Furqan 25:67]

<sup>4</sup> . “ If you be grateful, I will increase my favor on you.....[ 14: 7]

<sup>5</sup> For mathematical derivation of optimal bundles please see appendix-I